

Message Text

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PASS TREASURY AND FRB

E.O. 11652: GDS
TAGS: EFIN, EEC
SUBJECT: EC COMMISSION RECYCLING PLANS

REF: A. EC BRUSSELS 00310
B. LONDON 00293

1. SUMMARY: EC COMMISSION OFFICIALS DISCUSSED WITH US THEIR PLANS TO IMPLEMENT THE EC COMMON BORROWING FACILITY. THEY DO NOT EXPECT THE IMF BORROWING EFFORTS TO DISRUPT THE CHANCES OF A DIRECT EC PLACEMENT WITH THE OPEC COUNTIRES. COMMISSION OFFICIALS BELIEVE THE RESULTS OF THE WASHINGTON FINANCIAL MEETINGS HAVE ADDED TO EC UNTIY ON FINANCIAL ISSUES. THEY HOPE THAT THE US WILL ATTEMPT TO RESOLVE BILATERALLY WITH THE FRG THE ISSUE OF HOW TO FINANCE THE OECD SOLIDARITY FUND SO THAT NEGOTIATIONS CAN BE COMPLETED AS SCHEDULED. END SUMMARY.

2. EUROPEAN COMMON BORROWING FACILITY: COMMISSION OFFICIALS PLAN TO BEGIN NEGOTIATIONS TO MAKE A DIRECT PALACEMENT WITH OPEC COUNTRIES NEAR THE END OF FEBRUARY. THE EC WOULD LIKE TO WAIT FOR ABOUT A MONTH AFTER WITTEVEN HAS COMPLETED HIS INITIAL

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TRIP TO RAISE FUNDS TO REPLENISH THE IMF "OIL

FACILITY". THE COMMISSION'S FIRST OFFICIAL CONTACTS WITH THE OPEC COUNTRIES WILL PROBABLY BE MADE BY PRESIDENT ORTOLI OR VICE PRESIDENT HAERKAMP. THESE POLITICAL LEVEL CONTACTS WILL BE CLOSELY FOLLOWED BY MEMBERS OF THE EC WORKING GROUP DESCRIBED IN REF A.

3. CURRENTLY THE COMMISSION IS FOCUSING ON SAUDI ARABIA, KUWAIT AND THE EMIRATES AS POTENTIAL LENDERS. IRAN IS LIKELY TO DEMAND TOO MANY POLITICAL CONDITIONS TO WARRANT THE EC'S SERIOUS ATTENTION AT THIS TIME. INFORMAL SOUNDINGS INDICATE THAT SEVERAL OPEC COUNTRIES ARE INTERESTED IN LEDNING TO THE COMMISSION. NEVERTHELESS, NEGOTIATIONS ARE EXPECTED TO BE DIFFICULT. THE IMF EFFORTS TO BORROW FUNDS FOR THE OIL FACILITY AT THE SAME TIME SHOULD NOT CREATE UNDUE DIFFICULTIES BECAUSE THE EC WILL BE WILLING TO PAY A HGHER RATE OF INTEREST THAN THE IMF.

4. THE COMMISSION WOULD LIKE TO BORROW UP TO \$1.5 BILLION IN ITS FIRST PLACEMENT; THESE FUNDS MIGHT BE DRAWN IN SEVERAL TRANCES. THE COMMISSION EXPECTS MEMBER STATES TO SEEK FINANCING IN ACCORDANCE WITH THE FOLLOWING PRIORITIES: BILATERAL MECHANISMS, IMF FACILITIES, THE EC BORROWING FACILITY AND FINALLY THE PROPOSED OECD SOLIDARITY FUND. HOWEVER, SHOULD THE EC FACILITY BE ESTABLISHED BEFORE THE WITTEVEEN MARK II FACILITY AND SHOULD A MEMBER STATE HAVE A PRESSING FINANCIAL NEED, THE EC MIGHT GO AHEAD WITH A LOAN RATHER THAN WAITING FOR THE IMF OIL FACILITY.

5. IMF MEETINGS: COMMISSION OFFICIALS BELIEVE THE RECENT WASHINGTON MEETINGS HELPED IMPROVE THE COHESION OF THE EC IN MONETARY MATTERS. THE TWO MAJOR PROBLEMS OF THE EC'S PREPARATORY MEETING IN LONDON (SEE REF B) WERE RESOLVED: THE FRG AGREED TO PARTICIPATE IN THE OECD RECYCLING SCHEME AND FRANCE GAVE WAY ON ITS DESIRE TO BUY AND SELL GOLD IMMEDIATELY IN THE FREE MARKETS. IN ADDITION, THE US AGREED TO A 1975 IMF OIL FACILITY.

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6. OECD SOLIDARITY FUND: COMMISSION OFFICIALS INDICATE LITTLE ADDITIONAL PROGRESS CAN BE MADE BY THE TECHNICAL COMMITTEE UNTIL THE US AND FRG RESOLVE THE ISSUE OF HOW TO FINANCE THE FUND. THEY HOPE THE US WILL UNDERTAKE BILATERAL BILATERAL DISCUSSIONS TO WORK OUT A SOLUTION BEFORE THE COMMITTEE'S JANUARY 30 MEETING. ONE SENIOR OFFICIAL SAID

CONFIDENTIALLY THAT THE GERMANS WERE DIVIDED OVER WHETHER TO USE DIRECT CONTRIBUTIONS OR GUARANTEES. THIS OFFICIAL BELIEVES, NOW THAT THEY HAVE DECIDED TO PARTICIPATE, FRG FINANCE OFFICIALS FAVOR DIRECT CONTRIBUTIONS TO THE FUND, BUT THIS WOULD REQUIRE DRAWING DOWN OFFICIAL RESERVES. THE BUNDES BANK, ON THE OTHER HAND, IS OPPOSED TO SUCH A DRAW DOWN AND CONSEQUENTLY FAVORS GUARANTEES.

GREENWALD

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